

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 42 Subcontract Administration

Subject: 42.2 Post-Award Cost Audits

PURPOSE: This standard practice (SP) describes when it is necessary to obtain post-award audits on cost-reimbursable subcontracts in order to verify direct costs and establish final indirect cost rates.

POLICY: A post-performance audit shall be performed or obtained on all cost-reimbursable subcontracts when the amount of indirect costs exceeds \$1 million per subcontract.

SCOPE: This SP applies to all cost-reimbursement subcontracts.

Exceptions

Post-performance cost audits are not required for the following:

- Orders with DOE M&O Contractors (see SP 8.4, *Orders with DOE M&O Contractors*);
- Subcontracts with government agencies (see SP 8.2, *Government Sources — General*);
- Purchases against GSA contracts or Federal Supply Schedules (see SP 8.5, *Orders Against GSA Federal Supply Schedules*); or
- Intra-University Transactions (see SP 44.1, *Intra-University Transactions*).

DEFINITIONS:

Billing Rate

A billing rate is an indirect cost rate established temporarily for interim reimbursement of incurred indirect costs and adjusted as necessary pending establishment of final indirect cost rates.

Final Indirect Cost Rate

A final indirect cost rate is the indirect cost rate established and agreed upon by the government and the subcontractor as not being subject to change. Final rates are usually established after the close of the subcontractor's fiscal year (unless the parties decide upon a different period) to which it applies.

Indirect Cost Rate

An indirect cost rate is the percentage or dollar factor that expresses the ratio of indirect expense incurred in a given period to direct labor cost, manufacturing cost, or another appropriate base for the same period.

PROCEDURES:

Billing Rates

Billing rates must be established prior to subcontract award. The basis for these rates are recent reviews, previous audits or experiences, or similar reliable data or experiences of other contracting activities. These rates should be as close as possible to the final indirect cost rates anticipated for the subcontractor's fiscal year.

Post-Award Audits

Post-award audits must be performed annually for multi-year

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subcontracts when the subcontract costs will exceed \$1 million in any subcontractor fiscal year.

Post-Performance Audits

For cost-reimbursable subcontracts, a determination of whether a post-performance cost audit is required must be made before the subcontract is closed out. The procurement specialist makes this determination. See SP 42.4, *Subcontract Closeout*.

Cognizant Agency Audit

When a post-performance audit from a government audit agency is necessary, the request must be prepared and submitted through DOE in a timely manner. The request must prescribe the extent of support needed, state the specific areas for which input is required, and include the information necessary to perform the review.

Access to Financial Records

Only the procurement specialist or agency auditor shall have general access to the subcontractor's books and financial records. The audit usually begins as soon as possible after the request is received. The procurement specialist or government auditor is responsible for the scope and depth of the audit. Audits are performed in accordance with generally accepted government auditing standards.

Audit Results

The audit results must properly reflect the application of the applicable cost principles of the subcontract. Billing rates may be prospectively or retroactively revised by mutual agreement of the procurement specialist and auditor, and the subcontractor to prevent substantial overpayment or underpayment.

Audits Conducted by Cognizant Audit Agency — Audit recommendations must be resolved in a timely and appropriate manner, and such resolutions must be documented in the subcontract file. The agency must be notified of final resolution of the recommendations.

Quick Closeout Procedures

As directed by the procurement specialist or the government auditor, quick-closeout procedures may be employed if the subcontractor agrees. Quick-closeout procedures may be used for the settlement of indirect costs for a specific subcontract, in advance of the determination of final indirect cost rates, if:

- The subcontract is physically complete;
- The amount of indirect expense to be reimbursed will not exceed \$1 million per subcontractor fiscal year;
- The amount of and the allowability of claimed or proposed indirect expenses will be readily determinable based upon a review of the subcontractor's indirect cost experience;
- The subcontractor does not have a history of disputes,

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disallowed cost of any consequence, and there are no known potential cost issues of significance;

- There is a low potential risk for any significant overpayment of indirect expense under the subcontract;
- The administrative cost of obtaining the annual negotiated final rate(s) is known to or would be expected to exceed any benefit of the established final rates; and
- Agreement can be reached on a reasonable estimate of allocable dollars.

Determination of Final Indirect Costs — The determination of final indirect costs under the quick-closeout procedures is final for the subcontract it covers, and no adjustment can be made to other subcontracts for over- or under-recoveries of costs allocated or allocable to the subcontract covered by the agreement. Indirect cost rates used in the quick-closeout of a subcontract must not be considered as a binding precedent when establishing the final indirect cost rates for other subcontracts.

R&D Subcontracts With Educational Institutions

In the case of cost-reimbursement research and development (R&D) subcontracts with educational institutions, final indirect cost rates may be predetermined, i.e., established for a future period, on the basis of cost experience with similar subcontracts together with supporting data.

RESPONSIBILITIES:

Procurement Specialist

The procurement specialist must:

- Ensure that the audit results properly reflect the application of the applicable cost principles of the subcontract;
- Negotiate final subcontract costs with the subcontractor based upon the audit recommendations;
- Submit requests for agency audit through the DOE Contracting Officer;
- Document audit resolutions and final indirect cost rates in the subcontract file; and
- Establish the billing rates and perform or obtain the post-performance audit.